

# INDUSTRY CIRCULAR

OFFICE OF THE COMMISSIONER OF INTERNAL REVENUE  
ALCOHOL AND TOBACCO TAX DIVISION



WASHINGTON, D. C. 20224

Industry Circular No. 68- 2

January 24, 1968

## ADJUSTING ENTRIES ON DISTILLED SPIRITS TAX RETURNS

Proprietors of distilled spirits plants  
and others concerned:

The purpose of this circular is to advise you of a revenue procedure which will be published in an early issue of the Internal Revenue Bulletin. The revenue procedure, which will supersede Revenue Procedure 59-30, C.B. 1959-2, 947, is being issued to inform proprietors of distilled spirits plants of the methods to be followed in making entries on distilled spirits tax returns for overpayments, underpayments, and allowed credits, to repay excess amounts allowed on approved export drawback claims, and to pay tax on unaccounted for spirits withdrawn from bond for exportation. The instructions relate to returns of tax on Form 2521, Form 2522, Form 2523, Form 2527, and Form 4077. The revenue procedure will be published substantially as follows:

### SEC. 2. BACKGROUND.

.01 Errors on gauge reports, withdrawal forms, and returns which result in overpayment or underpayment of tax, whether discovered by the proprietor of a distilled spirits plant or by the Assistant Regional Commissioner, Alcohol and Tobacco Tax, may be corrected by the proprietor on his next return or, as an alternative in the case of overpayment of tax, by filing Form 843, Claim, for refund of the overpayment. When errors are discovered by examination and audit of the gauge reports, withdrawal forms, and returns in the office of the Assistant Regional Commissioner, Form 2626, Errors Affecting Determination and/or Payment of Tax at Distilled Spirits Plant, is prepared and forwarded to the taxpayer advising him of the errors and the corrective entries to be made on his next return. If the errors result in a substantial underpayment of tax, the Assistant Regional Commissioner may require the taxpayer to file an amended return.

.02 When a claim for export drawback on distilled spirits has been allowed in full under bond, and shortages or losses are disclosed by the documents certifying to the exportation, the Assistant Regional Commissioner may request the proprietor to repay to the Government that portion of drawback allowed, plus interest (if any), with his next distilled spirits tax return. Likewise, when a quantity of distilled spirits which were withdrawn without payment from bond for export is unaccounted for, the Assistant Regional Commissioner may call on the proprietor for payment of the tax, plus interest (if any), on such quantity of spirits, with his next distilled spirits tax return.

### SEC. 3. OVERPAYMENT OF TAX.

.01 See Revenue Ruling 66-109, C.B. 1966-1, 334 (Industry Circular 66-8 gives substance of ruling) for an interpretation of what constitutes an "overpayment" of tax when an excess payment is submitted with a return on Form 4077.

.02 Where an overpayment on a return (either a prepayment return or a semimonthly return) is discovered by the taxpayer, or where he receives a Form 2626 or other notice from the Assistant Regional Commissioner of such an overpayment, the taxpayer may file a claim on Form 843 for refund of the amount of tax overpaid (in which case credit therefor may not be taken on a subsequent return) or he may take credit on a subsequent return for the amount of tax overpaid. Where credit is so taken, a statement, giving the applicable information required by Section 9, must be made on the return or be attached to each copy thereof.

#### SEC. 4. ALLOWED CLAIMS FOR CREDIT.

Where a claim for credit (including, for example, a credit for drawback on spirits exported) has been filed, no credit may be applied to the amount of tax due on a return until advice is received from the Assistant Regional Commissioner that the claim has been allowed. Where the amount of credit to be taken exceeds the amount of tax due on one return, a portion of the credit may be taken on each succeeding return until the full amount of the credit is exhausted. When such credit is taken on a return, identify the claim by form number and claim number, in the space for "Remarks" on the return or, if no such space is provided, in a statement attached to each copy thereof. Where a statement is attached, it should be identified to the return as provided in Section 9.

#### SEC. 5. UNDERPAYMENT OF TAX.

.01 Where an underpayment of tax on a previously filed return, Form 2521, 2522, 2523, or 2527, is discovered by the proprietor, or when he receives Form 2626 or other notice from the Assistant Regional Commissioner of such an underpayment, the proprietor may make an adjustment therefor on a subsequent return or he may file an amended return. Where the amount of the underpayment is substantial, the Assistant Regional Commissioner may require the filing of an amended return, with remittance in the amount of the underpayment. Where an adjustment is made for an underpayment, a statement, giving the applicable information required by Section 9, must be made on the return or attached to each copy thereof.

.02 Where an underpayment of tax on a previously filed return, Form 4077, is discovered by the taxpayer, or where he received Form 2626 or other notice from the Assistant Regional Commissioner of such an underpayment, the taxpayer should follow the procedures in Section 7.02.

#### SEC. 6. AMENDED RETURN.

Where an amended return is to be filed, it need show only such entries as are necessary to correct and appropriately identify the error on the original return for the period (or day, in the case of prepayment return) in question. Such returns should be clearly marked "Amended Return," should identify the period covered by the original return, and should bear the same serial number as the original return. Where an amended return is filed to correct an underpayment, the amended return should reflect as a separate item any interest, at the rate of six percent per annum, due the Government, and should be accompanied by a remittance in the amount of the underpayment plus interest, if any.

#### SEC. 7. PREPARATION OF RETURNS CONTAINING CORRECTING ENTRIES.

.01 Forms 2521, 2522, 2523, and 2527. Where adjusting entries are made on a tax return, Form 2521, 2522, 2523, or 2527, the amount of tax due after adjustment will be shown in item 2b. The entry in item 2b shall be prefaced by an asterisk and a statement, also prefaced by an asterisk, shall be shown, at some location on the same side of the form where it will readily be seen, substantially as follows:

\*This entry reflects an adjustment of tax due with this return as explained in the attached statement.

The statement to be attached should give the applicable information required by Section 9. An overpayment or underpayment on a prepayment return may be adjusted on a semimonthly return or an overpayment or underpayment on a semimonthly return may be adjusted on a prepayment return; but in no case will an adjustment be taken on a return covering tax on rectified products to correct an overpayment or underpayment made on a return covering distilled spirits taxes, or vice versa.

.02 Form 4077. Where a proprietor of bottling premises discovers any errors on a previously filed return on Form 4077, or receives Form 2626, or other notice from the Assistant Regional Commissioner as to errors on a gauge report, withdrawal form, or return, and intends to make entries on a subsequent return, Form 4077, to correct such errors, he should make such entries in accordance with the following prescribed procedures:

(a) As to an error resulting in an overstatement of tax liability in Schedule A at lines 1 through 4, make a correcting entry in Schedule A at line 7, in accordance with footnote 3 on Form 4077.

(b) As to an error resulting in an understatement of tax liability in Schedule A at lines 1 through 4, or in an overstatement of credit at line 7, make a correcting entry in Schedule A at line 3 and, if necessary, in the record of tax liability.

(c) As to an error in the preparation of Form 4077 which affects an entry in Schedule A at line 5, 6, 8, or 9, or in Schedule B at lines 1 through 6, the error, generally, will automatically adjust itself on the next succeeding return and, in such case, no correcting entries need be made; however, interest may be due the Government. If so, the amount of such interest should be reported in item 2c and included in the amount shown in item 2b, of the next succeeding return.

Correcting entries on a return, Form 4077, should be fully explained on the form under "Remarks" or on a statement attached to each copy of the return giving the applicable information required by Section 9.

#### SEC. 8. SHORTAGES ON EXPORTATIONS.

Where spirits are exported with benefit of drawback by a proprietor of a distilled spirits plant, and the claim for drawback has been allowed in full under bond, the Assistant Regional Commissioner may request the proprietor to repay to the Government that portion of drawback allowed, plus interest, on any shortages or losses disclosed by the documents certifying to such exportation. Likewise, when a quantity of distilled spirits which were withdrawn without payment of tax from bond for export is unaccounted for, the Assistant Regional Commissioner may call on the proprietor for payment of the tax on such quantity of spirits. In such case, the proprietor may make voluntary payment or repayment of the tax, plus interest (if any), on his next distilled spirits tax return. When the proprietor elects to make such voluntary payment or repayment, he shall enter as separate items in item 2c of his next return the amount of the additional tax, and interest (if any), and include such amount in item 2b and in his remittance. Explanation of the entry in item 2c shall be made on the return, or in a statement attached to each copy of the return as provided in Section 9. Pending revision of return, Form 2522, item 2c should be modified to reflect the additional tax and interest (if any), substantially as follows:

"Includes \$ \_\_\_\_\_ additional tax and/or \$ \_\_\_\_\_ interest due the U.S."

These procedures are also applicable with respect to shortages or losses in shipments to customs manufacturing bonded warehouses, foreign-trade zones, and vessels and aircraft.

SEC. 9. STATEMENTS REGARDING ADJUSTMENTS.

Statements made on tax returns, or on attachments thereto, identifying adjustments made on the returns shall, as to adjustments made pursuant to a notice on Form 2626, identify the Form 2626 by date, and, as to adjustments for other reasons, identify the source and nature of the discrepancy making reference, as applicable, to the gauge report, withdrawal form, or the prior return containing the error for which the adjustment is made. In instances where a number of adjustments affect or result in a single entry on a return, a compilation of the adjustments should be shown followed by the net amount of the adjustment. In each instance where the statement is made on an attachment to the form, such attachment should identify the return form to which it is attached by showing the taxpayer's name and address, the return form number, the serial number of the return, and the period covered by the return.

SEC. 10. RECORDS.

Where a proprietor of bottling premises discovers any errors on a previously filed return on Form 4077, or receives Form 2626 or other notice from the Assistant Regional Commissioner as to errors in tax gallons on a gauge report or withdrawal form which would affect the accuracy of the daily summary records of additions to, or removals from, controlled stock, he should make appropriate adjusting entries in such records.

Inquiries concerning this circular should refer to its number and be addressed to your Assistant Regional Commissioner, Alcohol and Tobacco Tax.



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